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**WEALTH, CULTURE, AND CORRUPTION**

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This paper examines the impact of national **wealth**, income distribution, government size, and four cultural variables on the perceived level of **corruption** in a country. The study finds that **corruption** is significantly correlated to GNP per capita, power distance, masculinity, and uncertainty avoidance. Significant interaction effects occur in collectivistic and high power distance countries. Suggestions for future research are developed.

**Corruption** has become a major issue in the international press. Scandals have shaken governments in Belgium, Italy, Japan, and Spain. No country has been left untouched by its pernicious consequences. The search for the causes of **corruption** has led theorists to consider a broad array of economic, political, cultural, and psychological factors. Economic theories focus on the decision making of rational, self-interest-seeking individuals involved in corrupt transactions. Public choice (Rose-Ackerman, 1978), game theory (Macrae, 1982), and transaction-cost economics (Husted, 1994) have all made important contributions to the study of **corruption**. Some political scientists have embraced a more complex psychological profile of governmental officials by incorporating moral integrity into their analyses. Rogow and Lasswell (1963) have studied the personal lives of politicians and political bosses in the United States, and have developed a model of the psychological profile of the politician that relates unfulfilled childhood needs to corrupt behavior.

The subject of **corruption** has also been of great interest to criminologists. Many of their studies have looked at the relationship of specific organizational structures and incentives to **corruption**. Dombrink (1988,p. 232) examined the structure and **culture** of police departments throughout the United States and concluded that "police **corruption** control represents a range of strategies aimed at instilling professionalism, high morale, and commitment to innovation in police organizations." Barnett (1981) performed a similar task by looking at the structural and institutional causes of corporate crime.

Unfortunately, empirical work has lagged theoretical development and the result has been an accumulation of theory. Most empirical work has consisted of single-country case studies of **corruption** (Bunker and Cohen, 1983; Dombrink, 1988; Wade, 1985). Other work has looked at the perceptions of business people or students of corrupt practices in one or more countries (Longenecker, McKinney and Moore, 1988; Tsalikis and Nwachukwu, 1991). This latter work, although comparative, does not systematically evaluate alternative explanations of the differences in **corruption** that are seen across countries. Thus the empirical work to date has been unable to sift through the many theories to explain the variation in **corruption** across countries.

Although the theoretical and empirical research helps explain which individuals within a given society will be more susceptible to a particular structural and institutional context that promotes corrupt behavior, it does not explain why **corruption** varies across nations. The usefulness of these studies is limited to the countries in which they originated because the recommendations fail to take into account the variety of cultural contexts in which corrupt activities occur. For this reason, a broader, comparative model of the causes of corruption is needed. This paper draws together the insights of different theorists with the purpose of developing a model that explains the differences in **corruption** seen across countries. It then attempts to determine empirically which of the explanations is supported by the evidence.

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The literature includes many definitions of the concept of **corruption**. Some of them are restricted to situations in which one of the parties is a public official (LaPalombara, 1995; Oldenburg, 1987), while others allow for **corruption** between two private parties as in the case of commercial bribery (Coase, 1979). Macrae (1982) offers a definition that is sufficiently broad for our purposes in the present study. He refers to **corruption** as an "arrangement" that involves "an exchange between two parties (the 'demander' and the 'supplier') which (i) has an influence on the allocation of resources either immediately or in the future; and (ii) involves the use or abuse of public or collective responsibility for private ends" (Macrae, 1982, p. 678). The demander might be the representative of the selling firm, for example. The supplier could be a public official.

A model of **corruption** should explain the underlying causes or antecedents of this kind of exchange that influence the allocation of resources and involve the use of public responsibility for private ends. Most hypotheses regarding the causes of **corruption** have looked at the economic and political factors involved. However, **culture** has been neglected in such formulations. This neglect seems odd given the fact that cultural values have such a significant impact on a wide array of business practices in different countries (Hofstede, 1997). A value may be defined as "a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means, and ends of action" (Kluckhohn et al., 1951, p. 395). Thus, cultural values are those conceptions of the desirable that are characteristic of a particular people. Since **corruption** involves an exchange, it clearly qualifies as a mode or means of action under this definition. One would expect that at least some conceptions of the desirable would have an impact on the selection of **corruption** as an available means of action.

Given the fact that cultural values must play some role in **corruption**, we need to define more precisely the relationship that specific cultural values and other environmental factors play in selecting practices like bribery or extortion. Several models of cross-cultural ethics suggest some ways in which these variables interact. Wines and Napier (1992) state that values influence dominant cultural practices, among them corrupt practices, through the moderating effect of the external environment, which includes economic factors such as the availability of resources. However, the relationships between particular values as moderated by specific elements of the external environment are not well defined. This model may best be considered an orienting framework that helps researchers to identify the categories of variables that play a role in cross-cultural ethics.

Vitell, Nwachukwu and Barnes (1993) apply a model of marketing ethics developed by Hunt and Vitell (1992) to cross-cultural business ethics more generally. In their model, the cultural environment includes both cultural values and the political system, but the economic environment is not specifically included. They then develop specific propositions that relate Hofstede's cultural dimensions to reliance on informal and formal codes of behavior, the perception of ethical problems, the perception of the consequences of behavior, and the evaluation of the relative importance of stakeholders.

Using these frameworks as a guide, this section develops a series of hypotheses related to the causes of **corruption** based on both the existing **corruption** literature, which tends to focus on economic variables (economic development and income distribution) and a political variable (government size), and the cross-cultural management literature. It breaks down the concept of **culture** in order to look at the way certain cultural values may affect **corruption**. Finally, it examines the interactive effects that may exist between several of the independent variables.

**Economic development**

In attempting to understand the causes of **corruption**, economists cite the level of economic development as an important contributor to **corruption** (Alam, 1995; Macrae, 1982). Alam (1995) develops a fairly comprehensive theory of **corruption**, which explains differences in **corruption** across and within countries. According to Alam (1995), **corruption** occurs because the government has a monopoly over certain resources that are needed by the private citizen. However, as one compares **corruption** from country to country, one can find economic and institutional differences that affect the availability of countervailing actions on the part of the person being extorted by government officials. **Corruption** decreases as private parties are able to take advantage of these countervailing actions. Among such factors that increase the availability of countervailing actions are: "(a) secular increases in wages, education and urbanization; (b) growth of mass media; (c) advances in transportation and communications technology; (d) improvements in managerial and accounting skills; (e) growth of capitalist classes, urban middle classes, and an urban labor force; and (f) upward pressures on government expenditure" (Alam, 1995, p. 430). Since each of these factors is highly correlated with the level of economic development of a country, we focus only on the relationship between economic development and **corruption**.

Interestingly, the level of economic development may be related to the concept of environmental munificence discussed in the organizational theory literature. Staw and Szwajkowski (1975) found that firms facing less munificent environments committed a higher number of illegal acts. One would expect that in less munificent environments, firms would be more likely to engage in corrupt activities as a way of controlling their environments. Since the level of economic development is related to the overall level of resource munificence, one would expect that **corruption** at the country level would be more common in less developed economies. We thus hypothesize that:

Hypothesis 1: The higher the level of economic development, the lower the level of **corruption** in a country.

Interestingly, Mauro (1995) suggests that a reverse causality may exist. He finds that a high level of **corruption** deters foreign investment in a country, which in turn reduces economic development. One would expect that as **corruption** increases, economic development would be lower. Regardless of the direction of the causality, one should find a negative correlation between the level of economic development and **corruption**.

**Income distribution**

The relationship between income inequality and **corruption** is a complex one. On the one hand, **corruption** tends to preserve or even widen inequalities in the distribution of income (Johnston, 1989), and on the other hand inequality in distribution of income can promote higher levels of **corruption** (Alam, 1995). It appears that some sort of mutual causation may exist between income inequality and **corruption**. The basic intuition behind this relationship is that the existence of a more equal distribution of **wealth** reflects the existence of a middle class that can act to protect its interests through the organization of interest groups. Such groups weaken particularistic demands which tend to promote **corruption** (Scott, 1972).

Hypothesis 2: The greater the inequality in the distribution of income, the higher the level of **corruption** in a country.

**Government size**

Another cause of the variation in **corruption** from country to country, which has been proposed by political scientists, relates to the size of government (LaPalombara, 1994). According to this argument, the sheer size of modern government with respect to the economy as a whole creates larger bureaucracies, and increases the temptation for bureaucrats to misuse funds and exercise discretion in the awarding of contracts. LaPalombara (1994,p. 338) excludes Scandinavian countries from his generalization, but concludes that "a rough positive correlation does exist between how much of GDP a government gets its hands on and how much **corruption** exists." Thus we hypothesize:

Hypothesis 3: The larger the government's share of GDP, the higher the level of **corruption** in the country.

**Cultural Values**

Cultural values also play a fundamental role in the structural aspects related to **corruption**. Tsalikis and Nwachukwu (1991) found that **culture** affected the way that Nigerian and U.S. business students viewed acts of bribery and extortion. Unfortunately, they failed to specify how specific cultural values might affect perceptions of bribery. It is arguable that certain cultural values may either foster or inhibit **corruption** within a given group. The work of Geert Hofstede allows us to see how specific work-related values may be related to **corruption**. Hofstede (1997) has postulated five different work-related values which characterize different cultures around the globe -- power distance, individualism, masculinity, uncertainty avoidance, and Confucian dynamism.

A number of researchers have looked more closely at the relationship between Hofstede's cultural dimensions and perceptions of ethical behavior. Cohen, Pant and Sharp (1996) asked experts to evaluate the five dimensions with respect to eight vignettes involving questionable accounting practices. The results generally accord with those developed in this paper, except in the case of uncertainty avoidance. However, the authors admit that the broad, expected relationships between the cultural dimensions and the evaluation of the morality of a business practice may be an oversimplification, and that it may only make sense to investigate the relationship between the dimensions and specific practices. Since they do not discuss corrupt activities specifically, it is necessary to examine them in greater detail.

As mentioned earlier, Vitell, Nwachukwu and Barnes (1993) also study the effects of Hofstede's cultural dimensions on ethical decision-making. In only the case of uncertainty avoidance and masculinity, do they develop hypotheses dealing with the impact of **culture** on the likelihood of practitioners to perceive ethical problems. In both cases, their hypotheses are in agreement with those suggested in this article, although they do not specifically look at the case of corrupt activities. Let us now consider each one of Hofstede's cultural dimensions in terms of its relationship to corruption.

Power distance. According to Hofstede (1997,p. 28), power distance refers to "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally." In high power-distance countries there is considerable dependence of subordinates on their superiors in the form of paternalism. Paternalism is a system by which superiors provide favors to subordinates in return for their loyalty. Decisions are not made on the basis of merit, but on the basis of a balance of favors and loyalty. A paternalistic system thus leaves considerable room for **corruption** in the form of favoritism and nepotism. Takyi-Asiedu (1993) has specifically linked power distance to **corruption** in sub-Saharan Africa. He found that in high power-distance countries, "scandals involving people in authority are, almost always, covered up as long as they remain in power" (Takyi-Asiedu, 1993, p. 92). These cover-ups are a logical consequence of the loyalty of subordinates. This predicted relationship accords with the expectation of the majority of experts in the study by Cohen, Pant and Sharp (1996,p. 58) that people from a high power-distance **culture** would be more likely to view a questionable business practice as ethical than people from a low power-distance **culture**. Accordingly, one would expect that people from a high-power distance country would tolerate corrupt practices more than would people from low power-distance countries. Thus, we hypothesize:

Hypothesis 4: The higher the power distance in a country, the higher the level of **corruption** in a country.

Individualism. The individualism-collectivism dimension refers to the extent to which decisions about a person's life are determined by the individual or by the ingroup -- a person's circle of family, friends, or peers. In the study by Cohen, Pant and Sharp (1996), the panel experts thought that the relationship of individualism to the evaluation of a practice as ethical depended on the specific practice in question. Several authors have seen a relationship between collectivism and **corruption**. Hooper (1995) links the tendency to favor one's ingroup to **corruption** in Spain. Banfield (1958) saw a connection between the "amoral familism" (favoritism for family members) of a small village in southern Italy and the tendency of its public office holders to accept bribes. Gonzalez Fabre (1996) describes a similar form of familism in Venezuela. LaPalombara (1994,p. 332) notes that high collectivism is a particularly difficult structural condition to change because "persons in both the public and the private sectors will often not hesitate to violate written laws, particularly if they are interpreted to run counter to older and powerful moral codes." We would thus expect:

Hypothesis 5: The less individualistic (more collectivistic) a society, the higher the level of **corruption** in a country.

Masculinity-femininity. Masculinity is a dimension that refers, among other things, to a focus on "material success" as opposed to a concern with the "quality of life" (Hofstede, 1997, p. 82). Gonzalez-Fabre (1996,p. 60) has noted that in Venezuela, grand **corruption**, as opposed to petty **corruption**, is usually motivated by a desire for "the personal accumulation of riches." One would expect that this focus on material success would, in some cases, lead to a greater willingness to participate in corrupt transactions in the pursuit of material success. Zafiatu (1996) also attributes **corruption** in Chile to the desire for material gain. Interestingly, the experts in the study by Cohen, Pant and Sharp (1996) are very divided over the direction of the expected relationship between masculinity and the likelihood of a particular **culture** to view a questionable business practice as ethical. The panel's evaluations tended to vary according to the specific practice in question (Cohen, Pant and Sharp, 1996, p. 61). However, Vitell, Nwachukwu and Barnes (1993,p. 758) predict that countries high in masculinity will be less likely to perceive ethical issues in business practices than practitioners from countries with low levels of masculinity. A higher tolerance in the perception of ethical issues in questionable business practices would create more space for practitioners to accept corrupt practices. Thus, we may hypothesize:

Hypothesis 6: The greater the masculinity of a **culture**, the higher the level of **corruption** in a country.

Uncertainty Avoidance. Hofstede (1997,p. 113) defines uncertainty avoidance as "the extent to which members of a **culture** feel threatened by uncertainty or unknown situations." It reflects a certain intolerance for ambiguity within a given **culture**. **Corruption** can be viewed as a mechanism to reduce uncertainty. In situations where outcomes are uncertain, **corruption** may serve to secure a more certain result. For example, Alam (1995,p. 422) describes how government officials in passport offices "create the potential for illicit gains by causing delays and uncertainty in the processing of applications." Rashid (1981) has argued that bribery reduces uncertainty in the contracting of utility services in egalitarian third-world countries. Thus, we hypothesize:

Hypothesis 7: The greater the level of uncertainty avoidance in a nation, the higher the level of **corruption**.

It should be noted that this hypothesis does not conform with the expectation of the experts in the Cohen, Pant and Sharp (1996) study, who predict that countries high in uncertainty avoidance will tend to evaluate a given business practice as less ethical than individuals from low uncertainty-avoidance cultures. However, the results of their study suggest that it may be necessary to relate uncertainty avoidance to the ethical evaluation of a specific questionable practice, rather than attempt an overall comparison of ethics in one country with another. For example, in their vignette dealing with confidentiality, the experts expected that people from high uncertainty-avoidance cultures would be more likely to evaluate this issue as ethical than their low uncertainty-avoidance counterparts. In the vignettes dealing with favors for a client and underreporting billable hours, the experts expected no relationship, while in the remaining vignettes the experts expected a negative relationship. In contrast, Vitell, Nwachukwu and Barnes (1993,p. 757) broadly agree with the relationship hypothesized in this article because "[b]usiness practitioners in countries that are high in uncertainty avoidance ... will be less likely to perceive ethical problems than business practitioners in countries that are low in uncertainty avoidance." This somewhat counterintuitive result may be cleared up by distinguishing uncertainty avoidance from risk avoidance. Hofstede (1997) observes that frequently people in high uncertainty-avoidance countries will engage in risky behavior, like speeding, if such behavior reduces their anxiety. For this reason, we expect countries high in uncertainty avoidance to be more tolerant of corrupt practices, despite their risky and illegal nature.

Confucian dynamism. Hofstede's final dimension is Confucian dynamism. At one pole, there is a value for persistence, ordering and honoring relationships by status, and a "concern with respecting the demands of virtue;" at the other end, "personal steadiness and stability" as well as a focus on the truth are valued (Hofstede, 1997, pp. 168-69, 173). Hofstede refers to the former set of values as a long-term orientation, and the latter set as a short-term orientation. Although one might associate a long-term orientation with a lesser likelihood to participate in corrupt transactions, upon examining the individual elements of the two poles, it is difficult to see how one set of values or the other would have any impact on corrupt behavior. Should stability (short-term orientation) have a different impact on corruption than persistence (long-term orientation)? Values at both ends of this dimension could either foster or reduce **corruption**. Confucian dynamism is therefore left out of the model. This conclusion contradicts the finding of the experts in the study by Cohen, Pant and Sharp (1996) that long-term orientation will be associated with a lower tolerance for questionable business activities. Nevertheless, in the case of their vignette dealing with conflict of interest, the experts expect long-term orientation to have no impact. Given the fact that Cohen, Pant and Sharp (1996) did not specifically deal with the case of **corruption**, and given the nature of the elements of the two poles of Confucian Dynamism, it seems reasonable to conclude that it has no impact on corrupt activities.

**Interactive effects**

It should be recognized that there might exist significant interactions among some of these variables. First, Hofstede (1997) argues that individualism is related to the level of economic development. He found that wealthier countries tend to be more individualistic than poorer ones. Second, Hofstede (1997) also found that there exists a high correlation between power distance and individualism. High power distance is associated with more collectivistic societies. However, he observes that this relationship disappears when the level of economic development is held constant. Hofstede's remarks suggest that we may be dealing with two different groups of countries, rather than a single population. One group appears to consist of rich, individualistic countries with low power distance, while the other group may comprise poor, collectivistic countries with high power distance. The literature does not suggest any specific interactions that these variables may have on the hypothesized relationships between the explanatory variables and **corruption**. However, we should be sensitive to possible interactions in the analysis of the data.

[METHODS](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

**Measures**

Data were obtained entirely from published sources. The 1996 Transparency International **Corruption** Perceptions Index was used as the measure of **corruption** (Transparency International, 1996). Transparency International defines **corruption** as "the misuse of public power for private benefit." The index is based on ten international surveys of the perceptions of business people and country experts regarding **corruption** around the world in over 50 countries. The index was calculated by taking the simple average of the normalized results of the individual surveys. The **corruption** index is a continuous scale from 0 to 10 where 10 represents a completely clean country, and 0 represents an absolutely corrupt state. This scale presents a minor problem at the moment of interpreting **corruption**, since more **corruption** is evidenced by a lower number on the scale. As a result, the **corruption** index number was transformed by subtracting it from 10 in order to obtain an increasing scale of **corruption**, rather than of lack of **corruption**.

Each of the underlying surveys used definitions of **corruption** similar to that of Transparency International, lending to the overall validity of the index. The World Competitiveness Report (1995) looks at improper practices such as bribing or **corruption** in the public sphere. The survey of Political & Economic Risk Consultancy (1996) only asks for an evaluation of the level of **corruption**, with no greater specification. Impulse (1994) asked about the spread and amount of **corruption** in public and private organizations. The DRI/McGraw-Hill Global Risk Service (1995) estimated losses caused by **corruption**. Political Risk Services (1995) evaluated the likelihood of government officials to demand special and illegal payments at both high and low levels of government. Finally, the Internet **Corruption** Perception Index of G6ttingen University looks at the "degree of misuse of public power for private benefits." These definitions and other information regarding the underlying surveys are summarized in Table 1.

Clearly, the underlying surveys all dealt with **corruption**. However, some were narrowly focused on a specific kind of **corruption** (demanding illegal payment by high and low levels of government), while others included broader evaluations of the "level of **corruption**" which could involve illegal payments or other acts such as embezzling public funds. Since the results of each of the surveys have been normalized to the same mean and variance, the differences in each survey's specific methodology and time are neutralized. The only information that remains is the comparative cross-country information relevant to the purposes of the present study. In this way, the **corruption** perception index is able to compare levels of **corruption** in different countries, eliminating the bias that may have been introduced into any one survey.

The **corruption** index has been evaluated in great detail by Lancaster and Montinola (forthcoming) who find that "the standardization and combination into a single index strengthens TI's measure in terms of questions of validity and reliability." The reliability is strengthened by the use of the results of at least four different surveys for each country. The reliability of the index is also indicated by the high correlation among the results of the underlying surveys. These correlations are reported in Table 2. Lancaster and Montinola (forthcoming) conclude their evaluation of the index in these words: "While no measure is perfect, TI's **Corruption** Index appears to be a rather robust one."

The **Corruption** Perceptions Index is limited in a number of ways. First, it does not reflect the activity of business people who refrain from corrupt activities at home, but engage in them abroad. Second, the index is a measure of perceptions of corrupt activity, not the level of activity itself. Since most corrupt transactions are secretive by nature, objective measures such as criminal indictments or media coverage tend to indicate the effectiveness of the judicial system or media rather than the actual level of corrupt activity in a country. However, given the fact that the respondents are country experts or business people with experience in each of the countries in question, their perceptions are particularly interesting.

Despite its limitations, the **corruption** index is beginning to be used by researchers. Heidenheimer (1996) has used the index in descriptive research. Lambsdorff (1997) has used the index in a quantitative study of the role of bribery in international trade. Lancaster and Montinola (forthcoming) predict that the index will greatly facilitate **corruption** research in the future.

Economic development was measured using World Bank (1996) data on gross national product per capita. Purchasing power parity estimates of GNP per capita were used since these estimates reflect differences in the cost of living from one country to another. The estimates are derived by using a currency's purchasing power parity instead of its exchange rate, which may be under- or over-valued. World Bank (1996) data were also used to measure differences in the distribution of income and the size of the public sector. Income inequality was measured using the percentage share of income of the wealthiest 10 percent of a country's population. The well-known Gini coefficient was published, but not available for high-income economies. The size of the public sector was measured using World Bank (1996) measures of government consumption as a percentage of the gross domestic product. The alternative measure of expenditure as a percentage of gross national product was not used, since expenditures include transfer payments and entitlements, which are less susceptible to the exercise of discretion by government officials than are direct purchases.

The cultural variables of power distance, individualism, masculinity, and uncertainty avoidance were measured according to data published by Hofstede (1997) for fifty countries and three regions. Power distance was calculated on the basis of responses to questions about preferred leadership styles and fear of dissent. Uncertainty avoidance measured responses dealing with the observance of organizational rules, employment stability, and work-related stress. Individualism was developed from a factor analysis of fourteen work goals. Individualistic work cultures valued personal time, freedom, and challenging work. Collectivistic work cultures valued training opportunities, good physical working conditions, and the use of skills on the job. The masculinity index was derived in a similar manner. Masculinity was associated with the importance given to high earnings, recognition, advancement, and challenging work. Femininity was associated with enjoying good working relationships with superiors and peers, living in a desirable area, and employment security. In a recent review of research based on Hofstede's work, Sondergaard (1994) found that the cultural dimensions had been largely confirmed and validated in replications and extensions of the study.

**Data Analysis**

Table 3 shows the descriptive statistics and correlation matrix for all the variables. The correlation matrix suggests that a moderate level of collinearity exists among the measures of economic development, income distribution, and government consumption. But such moderate levels should not be damaging to the assumptions of ordinary least squares (OLS) regression (Hanushek and Jackson, 1977). There is a relatively high correlation between individualism and government size (r = -0.75), and between power distance and government size (r = 0.76). This latter correlation implies that governments are larger in societies characterized by a greater acceptance of authority. Hofstede (1997) also observes that weak individualism is associated with a larger role for the government in the economy. As a result, the high correlation between individualism and the size of government consumption as a percentage of gross domestic product should not be surprising. However, this result does confirm the need to carefully scrutinize the impact of multicollinearity on the sample. As expected, there is a high correlation between power distance and individualism, acknowledged by Hofstede (1997), who notes that this relationship disappears if economic development is held constant. Since economic development is included in the model, there should be little concern about this correlation.

The **corruption** index was used as the dependent variable. Measures of **wealth**, income distribution, size of the public sector, and **culture** were used as independent variables. The data were analyzed using OLS (ordinary least squares) multiple regression analysis. Since the dependent variable is continuous and the data are cross-sectional, such a model appeared appropriate.

[RESULTS](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

A first regression was run on all of the hypothesized independent variables. The only significant variable was GNP per capita. Data for all of the variables were available for only 36 countries. Three of the cultural variables (power distance, uncertainty avoidance, and masculinity) were significant at the 0.10 level. The variables related to size of government, distribution of income, and individualism were not significant. Given the higher level of significance of the three cultural variables, we decided to run a second regression only including GNP per capita, power distance, uncertainty avoidance, and masculinity. This decision allowed us to increase the sample to 44 countries for which data on the relevant variables were available.1 The descriptive statistics and correlation matrix for the second set of variables appear in Table 4. The results of the regression analysis for the second equation are shown in Table 5.

The adjusted coefficient of determination is 0.81. The independent variables all have the expected signs and are all significantly different from zero at the 0.05 level. A stepwise regression was performed on the data in order to determine the order in which the variables were entered in the model. The order in which each variable was entered with its partial correlation coefficient also appears in Table 5.

One problem that may occur with this type of data is multicollinearity, which is a high degree of correlation among two or more of the independent variables. One of the effects of multicollinearity is that the estimates of the coefficients of the independent variables become very sensitive to the data used. The variable-inflation factor (VIF) is one measure of the effect the other independent variables have on the variance of a regression coefficient (Maddala, 1988). Large VIF values indicate high collinearity. Suggested cutoffs for VIF include 10 (Studenmund, 1992) and 5.3 (Hair, Anderson, Tatham and Black, 1992). The VIF values are reported in Table 5 and in no case exceed 5. Multicollinearity does exist, but it does not appear to be severe. Since the stability of the coefficients is a concern, regressions were run by including the variables successively in each model in order to analyze the impact of the inclusion of additional variables on the stability of the coefficients. Table 6 shows the coefficients for each variable and each model. The coefficients appear to be relatively stable.

An analysis of the residuals provides some interesting insights into the nature of the problem. Table 7 lists those countries that are more or less corrupt than predicted by the model.

The first column includes those countries that are less corrupt than predicted. This list is interesting because each one represents a country that is undergoing tremendous economic, political, and social transitions. However, it is difficult to understand the role that transition may have on these countries when so many other countries in transition were predicted accurately by the model (Argentina, Korea, and Thailand, for example). The second group of countries is also interesting. What unites them may be the lack of transition. However, there are many other countries that are not undergoing major transitions, for which the model more accurately predicted the level of **corruption** (Germany and France, for example).

The residuals include the unexplained portion of the regression. Either there is another variable missing, or each case is sui generis. In this study, the second interpretation seems more convincing given the fact that there does not appear to be a variable that could explain why some countries are more or less corrupt than predicted and other countries are on target.

The data were tested for possible interactions by dividing the sample into two sub-groups for each of the most likely moderating variables (individualistic versus collectivistic countries, high versus low level of economic development, and high versus low power distance countries). A Chow test was used to discover the existence of interaction effects for each of these variables. In each case, a significant interaction effect was found. Consequently, the model described in table 5 should be interpreted with caution. We decided to perform a step-wise regression analysis on each of the three models with interactive effects in order to compare the explanatory power of these models with the global model. The results are summarized in Table 8.

Overall, the adjusted coefficients of determination for each of the interactive models is less than the coefficient of determination of the global model (adjusted R square = .81). Nevertheless, we observe in the case of collectivistic countries that masculinity and economic development have an explanatory power that is slightly better than that of the global model. Unfortunately, the ability to explain **corruption** in the individualistic countries is much lower than in the global model without interaction effects. Likewise, masculinity and economic development are particularly powerful explanations of corruption for countries with high power distance. But the ability to explain **corruption** in low power distance countries is considerably less than in the global model. Overall, these results suggest that for collectivistic countries and high power distance countries, the dynamics of **corruption** may be explained by a more parsimonious model. In both cases, no new variables are added to the model. For these collectivistic, high power distance countries, the effect of economic development and masculinity on corruption is strengthened in the hypothesized direction. Although the global model described in Table 5 does provide a powerful explanation of **corruption**, these results need to be interpreted carefully in the case of collectivistic and high power distance countries, where **corruption** can be explained more simply by the level of economic development and masculinity. Further research on this point must await extension of both the **corruption** perceptions index and Hofstede's cultural dimensions to more countries.

[DISCUSSION AND CONCLUSIONS](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Clearly, the most significant correlate of **corruption** is the level of economic development as measured by the purchasing power parity estimate of GNP per capita. It is interesting to note that three of the four cultural variables are positively correlated with **corruption** at a significant level. On the basis of these results, we can tentatively describe a cultural profile of a corrupt country as one in which there is high uncertainty avoidance, high masculinity, and high power distance. In the case of collectivistic and high power distance countries, high masculinity is the single cultural variable that contributes to **corruption**.

The failure of individualism to be found as a significant variable is probably due to the fact, as noted by Hofstede (1997), that individualism is highly correlated with GNP per capita. Most of the information carried by individualism was already contained in the economic development variable, so that any additional information contributed by the variable was insignificant in the model.

Interestingly, government size is not related to **corruption**. It may be, as LaPalombara suggests, that a relation between government size and **corruption** exists within a certain limited range of cases. Unfortunately, he does not provide any rule as to which cases should be excluded other than to cite the Scandinavian countries as possible exceptions. Most of the correlation between government size and **corruption** appears to be accounted for by the power distance variable.2 Similarly, there is no evidence of a relationship between an unequal distribution of income and **corruption**. Most of the correlation between an unequal distribution of income and **corruption** appears to be accounted for by the level of economic development.3

What implications do these results have for the study and control of **corruption**? In a certain sense, the economic and cultural conditions which are correlated with **corruption** are intractable (Alam, 1995). It is difficult to demand economic growth by fiat. It is also very difficult, as LaPalombara (1995) mentioned, to change a cultural value. Hofstede (1997,p. xiii) explains the challenge in these terms: "[O]ur common world-wide problems demand concerted action, but if we have to wait until all peoples share the same cultural values, we will wait forever."

The key for policy makers is to take into account cultural features, which lend themselves to **corruption**, in the design of policy instruments that will encourage integrity. As a result, some of the solutions that may work in the United States, such as conflict-of-interest and "sunshine" statutes (Zimmerman, 1994), may not work in high power-distance countries where power operates in the context of control over information (Boisot, 1986; Boisot and Child, 1988). Such statutes may exist on the books, but people will not take advantage of them because they violate important cultural values. Nevertheless, taking into account cultural differences, one may develop more effective **culture**-specific strategies to combat **corruption**. For example, in highly masculine countries, practices such as information sharing and merit-based evaluations might be presented as practices which increase material **wealth**. In high uncertainty-avoidance countries, institutional reforms should be aimed at increasing the uncertainty associated with corrupt transactions and reducing the anxiety and ambiguity associated with clean transactions.

Business practitioners in the United States have been concerned about foreign bribes since at least 1977 because of the Foreign Corrupt Practices Act (FCPA), which provides for heavy fines and jail terms for individuals and companies who know or have reason to know of violations of the Act. The International Chamber of Commerce (1996) has also issued strict rules of conduct with regard to bribery and extortion. Ministers at a 1997 meeting of the OECD agreed to ratify a convention prohibiting the payment of bribes to foreign officials (International Herald Tribune, 1997). A U.S.-style approach to fighting **corruption** with emphasis on fines and jail terms would probably work effectively in other masculine, low uncertainty-avoidance countries, which are also prone to **corruption**. However, the FCPA may be too vague in high uncertainty-avoidance countries, where more explicit norms regarding certain concepts, such as reasonable knowledge of violations, may be necessary.

The results of this study should aid international business practitioners in understanding how cultural values are related to **corruption**. The focus on personal relationships, respect for authority, and material success, evidenced by different cultural values, are related to corrupt practices. The challenge for the business practitioner is not to devalue these cultural preferences, but to find ways to honor them without recurrence to the questionable payments and gifts that are often associated with such values.

Future research should analyze the relationship of economic development and **culture** to different kinds of **corruption**. For example, the literature identifies petty or low-level and grand **corruption** according to the monetary amount of the transaction (Rose-Ackerman, 1978). Gonzalez-Fabre (1996) saw a link between grand **corruption** and masculine values in Venezuela. Macrae (1982) argues that uncertainty increases with grand **corruption**. One might thus expect more grand **corruption** in countries characterized by low uncertainty avoidance. A distinction is also made between price **corruption** and parochial or idiosyncratic **corruption** (Scott, 1972; Schleifer and Vishny, 1993; Husted, 1994). Price **corruption** is characterized by an established, market price for specific corrupt acts, while parochial **corruption** is customized to the needs of the client and lacks a market price. One can see that power distance and paternalism might be positively correlated with parochial (idiosyncratic) **corruption**, which depends more on personal relations and connections than does price **corruption**.

Future research should also seek to improve upon the current index's limited sample size and focus on passive **corruption**. Currently, the **corruption** index is being extended to other countries (Transparency International, 1996). Hofstede's (1997) work is also being extended to other countries (At-Twaijri and A1-Muhaiza, 1996). Therefore, it should be possible to replicate this research with larger samples of countries in the not-too-far-distant future. In addition, the **corruption** index is limited to passive **corruption** (activity by the party receiving the bribe); it does not deal with the party offering the bribe. Future work should explore the relationship of the variables included in the present study to measures of active **corruption**.

Finally, this study takes a static approach to **corruption** and fails to examine the impact of changes in economic development or **culture** on changes in the level of **corruption**. Only a longitudinal approach can help us determine questions of causality. Although some historical data for **corruption** do exist, they lack the robustness of the Transparency International Index. As Transparency International continues to publish its index, such analyses should become possible. Despite these limitations, the study highlights the role that economic development and national **culture** play in fostering or reducing **corruption** and suggests that continued research into the largely neglected area of **culture** may be quite fruitful.

[NOTES](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

[*1.*](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#bib1up) *These 44 countries are not, strictly speaking, a sample, but rather a large proportion of the population of countries. They represent almost 52 per cent of the world population and 92 per cent of world GDP. Two notable countries that were excluded from the analysis for lack of data were Russia and China. In addition, most African nations were also excluded for want of data.*

[*2.*](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#bib2up) *The partial correlation coefficient for government size and* ***corruption****, while holding power distance constant is -0.098 (n = 39, p = .54).*

[*3.*](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#bib3up) *The partial correlation coefficient for unequal distribution of income and* ***corruption****, while holding the level of economic development constant is 0.038 (n = 33, p = 0.83).*

[Table 1: Sources For The 1996 Transparency International Perceptions Index](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Legend for Chart:

A - Source

B - Year

C - No. of contributions

D - No. of countries

E - Respondents

F - Subject

A B C d

World 1993 cs.2600 37

Competitive-

Ness Report

World 1994 2851 41

Competive-

Ness Report

World 1995 3292 48

Competive-

Ness Report

Political & 1993 74 10 Asian

Economic countries

Risk Consul-

Tancy

Political & 1995 95 11 Asian

Economic Risk countries

Consultancy

Political & 1996 No details 12 Asian

Economic Risk reported countries

Consultancy

Impulse, Peter 1994 About 3 per 103

Neumann country

DRI/McGraw- 1995 Assessment by 105

Hill Global staff

Risk Service

Political 1995-96 Assessment by 148

Risk Services staff

Internet 1995-96 190 58

**Corruption**

Perception Index

Gottingen

University

D - Executive in top and middle management

E - Improper practices (such as **corruption** on the public sphere)

D - Executives in top and middle management

E - Improper practices (such as **corruption**)

D - Executives in top and middle management

E - Improper practices (such as **corruption**)

D - Senior bank executive

E - Level of **corruption**

D - U.S., European, and Australian Managers

E - Level of **corruption**

D - No details reported

E - Level of **corruption**

D - Embassies, Chambers of Commerce

E - Spread and amount of **corruption** in public and private business

D - Assessment by staff (linearized)

E - Estimated losses caused by **corruption**

D - Likelihood to demand special and illegal payments in high and low levels of government

E - Degree of misuse of public power for private benefits (average)

[Table 2: Transparency International Corruption Perception Index Correlation Matrix](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

WCR WCR PERC PERC PERC

1994 1995 1993 1995 1996

WCR 1993 0.96 0.96 0.81 0.84 0.86

WCR 1994 1.00 0.97 0.83 0.77 0.83

WCR 1995 1.00 0.91 0.92 0.93

PERC 1993 1.00 0.95 0.96

PERC 1995 1.00 0.97

PERC 1996 1.00

Impulse MGH PRS ICPI 1996

WCR 1993 0.86 0.72 0.79 0.98

WCR 1994 0.87 0.74 0.78 0.93

WCR 1995 0.75 0.68 0.79 0.89

PERC 1993 0.90 0.62 0.64 0.97

PERC 1995 0.91 0.80 0.80 0.99

PERC 1996 0.95 0.76 0.75 0.96

Impulse 1.00 0.64 0.67 0.65

MGH 1.00 0.67 0.50

PRS 1.00 0.48

Source: Transparency International (1997).

[Table 3: Descriptive Statistics and Correlations For The Initial Model](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Variable Mean s.d. 1 2 3

1.**Corruption** 5.77 2.84

2.GNP per capita 12828 7890 -0.85\*\*

3.Government

size 15.17 5.96 -0.57\*\* -0.43\*\*

4.Income

distribution 30.41 8.70 0.47\*\* 0.57\*\* 0.44\*\*

5.Individualism 19.08 26.68 -0.72\*\* -0.70\*\* -0.75\*\*

6.Masculinity 50.25 19.42 0.27 0.05 0.41\*\*

7.Power distance 56.17 22.38 0.72\*\* 0.61\*\* 0.76\*\*

8.Uncertainty

avoidance 58.58 20.95 0.32\* 0.15 0.12

4 5 6 7

5.Individualism 55\*\*

6.Masculinity -0.21 0.12

7.Power distance -0.50\*\* 0.73\*\* -0.29

8.Uncertainty

avoidance -0.09 0.13 -0.29\* -0.10

\* p < .05.

\*\* p < .01.

[Table 4: Descriptive Statistics And Correlations For the Final Model](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Variable Mean s.d. 1 2 3 4

1.**Corruption** 4.27 2.67

2.GNP per 12558 7343 -.85\*\*

capita

3.Power distance 54.93 21.85 .70\*\* -.61\*\*

4.Uncertainty

avoidance 62.61 22.88 .33\* -.18 .13

5.Masculinity 50.66 18.65 .20 .003 .13 .17

\*p < .05.

\*\*p < .01.

[Table 5: Results Of Regression Analysis](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Variable Order Regression Standard VIF

Entered Coefficient Error

GNP per capita 1 -.00024 .000031 1.64

Power distance 2 .032 .0104 1.63

Uncertainty

avoidance 3 .017 .0081 1.07

Masculinity 4 .021 .0098 1.06

t-Statistic Prob. Partial

Correlation

Coefficient

GNP per capita -7.74 .000 -0.78

Power distance 3.07 .004 0.44

Uncertainty

Avoidance 2.16 .037 0.33

Masculinity 2.09 .043 0.32

Regression equation characteristics:

Adjusted R Square = .81.

F = 46.23.

N = 44.

[Table 6: Stability Of Coefficients Of The Regression Model](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Variable Entered Step 1 Step 2 Step 3 Step 4

GNP per capita -.00031\*\* -.00024\*\* -.00023\*\* -.00024\*\*

PDI .036\*\* .036\*\* .32\*\*

UAI .020\* .017\*

MAS .021\*

\*\* Significant at the .01 level.

\* Significant at the .05 level.

[Table 7: Residuals: Countries More Or Less Corrupt Than predicted](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Less **corruption** than predicted

Chile

Ireland

Malaysia

New Zealand

Portugal

South Africa

More **corruption** than predicted

Italy

Nigeria

Pakistan

United States

[Table 8: Interaction Effects](http://ehis.ebscohost.com.ezproxy.mercyhurst.edu/eds/detail?vid=3&hid=3&sid=79679927-a55f-4781-a06d-34584e674798@sessionmgr11&bdata=JnNpdGU9ZWRzLWxpdmU=#toc)

Interaction based on individualism (Weighted

average of adjusted R square = .61)

High Individualism

(Adjusted R Square = .33) n =20

Variable Regression t-Statistic Prob.

coefficient

Uncertaintly .050 3.19 .005

Low Individualism

(Adjusted R Square = .85) n = 24

Variable Regression t-Statistic Prob.

coefficient

Masculinity .036 3.03 .006

GNP per capita .00032 -11.38 .000

Interaction based on economic development (Weighted

average of adjusted R square = .55)

High GNP per capita

(Adjusted R Square = .43) n =22

Variable Regression t-Statistic Prob.

coefficient

Power .033 2.35 .030

Distance

Uncertainty .035 3.24 .004

Low GNP per capita

(Adjusted R Square = .66) n = 22

Variable Regression t-Statistic Prob.

coefficient

Individual- -.034 -2.28 .034

ism

GNP per -.00038 -6.31 .000

capita

Interaction based onpower distance

(Weighted average of adjusted R

square = .83) n = 24

Low PDI

(Adjusted R Square = .64) n =20

Variable Regression t-Statistic Prob.

Coefficient

Power .092 3.50 .003

Distance

Individual- -.068 -3.72 .002

ism

High PDI

(Adjusted R Square = .83) n = 24

Variable Regression t-Statistic Prob.

Coefficient

Masculinity .037 2.46 .023

GNP per -.00027 -9.90 .000

capita

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